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SUBJECT: MINISTERS SHAHRISTANI AND KAREEM DISCUSS IRAQ
ENERGY ISSUES IN WASHINGTON

¶1. (SBU) SUMMARY: On the margins of the Dialogue on Economic Cooperation (DEC) and the U.S.-Iraq Business and Investment Conference (BIC), the Iraqi Minister of Oil, Dr. Hussain al-Shahristani, and the Iraqi Minister of Electricity, Dr. Kareem Wahid al-Hasan, met with USG officials. Minister Shahristani met with the Secretary's Coordinator on International Energy Affairs (S/CIEA), David Goldwyn, and the Special Envoy for Eurasian Energy (S/EEE), Ambassador Richard Morningstar. Minister Shahristani also met U.S. Department of the Interior (DOI) officials to review the DOI technical assistance program with the Ministry of Oil. Minister Kareem met with Secretary of Energy Steven Chu, and asked the Secretary for assistance in securing financing for projects to expand electricity generation. END SUMMARY

MinOil with S/CIEA and S/EEE

¶2. (SBU) In Shahristani's meetings with Goldwyn and Morningstar the day after the DEC, Goldwyn asked about the status of the national energy strategy. Minister Shahristani stated that once the Ministry of Oil (MoO) awarded oil and gas fields, the Government of Iraq (GOI) would know how much oil and gas would be produced, would determine if such production was enough to satisfy demand, and would determine if there was any excess gas for export.

¶3. (SBU) Regarding electricity tariffs, Shahristani felt it would be a while before it would be realistic to implement a reduction in electricity subsidies. He noted that a reduction in fuel subsidies would only be possible when fuel supplies were sufficient to meet domestic consumption needs. He then redirected the conversation to payments from state-owned entities (SOEs). He said SOEs needed to start paying for power and fuel rather than have the Ministry of Finance do paper transactions that did not result in financial transactions. For example, he expected the Ministry of Electricity would pay the Ministry of Oil for any gas provided for electricity generation.

¶4. (SBU) Morningstar asked about the potential of two Kurdish-controlled gas fields to export to Turkey. (NEA/I Note: Chamchamal and Kormor are the two fields. End Note.) Shahristani admitted that his last exchange with Kurdish officials was almost one year ago. He explained that the federal government's position remained the same: the State Oil Marketing Organization would be responsible for all export sales, all revenues would be collected and deposited into the national treasury, and revenues would be distributed to regional and provincial governments through the annual budget. According to Shahristani, the Kurdistan Regional Government (KRG) did not dispute these points.

¶5. (SBU) Shahristani explained that the main points of contention with the KRG were related to the KRG's awarding of contracts (i.e., direct negotiations rather than bid rounds), the type of contract the KRG was using, and the approval process of the contract. He stated that the federal

government had the legal right to review the contracts and potentially renegotiate with the companies as the Ministry of Oil had done with the China National Petroleum Company for the Ahdab field. The KRG was being unreasonable because it wanted Baghdad to pay the contracts, but did not want Baghdad to see the details (thereby asking Baghdad to blindly accept the terms of the contracts). Shahrستاني added that as long as the KRG refused to budge on this point, then it was up to Erbil to pay the contracts. He reiterated what he said at the DEC that there was "nothing we can do" on the Kurdish issues with respect to oil and gas until after the elections.

However, he did say that Iraq would be open to USG assistance on technical issues surrounding potential revenue sharing arrangements.

16. (SBU) Goldwyn asked whether first round contracts allowed for payments of oil in kind and what impact such a provision would have on the requirements of the Development Fund for Iraq (DFI). Shahrستاني said with a smile that he hoped the DFI would not exist in a year but. In any case, he continued, any payment in kind would be priced at the appropriate benchmark, and accounted for and paid in cash in the equivalent amount.

17. (SBU) S/CIEA Goldwyn told the Minister that the USG would help the GOI with four things:

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- financing models in the power sector (Trade and Development Agency)
- financing models for pipelines and terminals (Trade and Development Agency)
- an increase in U.S. Department of the Interior assistance to the Ministry of Oil
- the implementation of the Extractive Industries Transparency Initiative (State)

MinOil with U.S. Department of the Interior

18. (SBU) Shahrستاني met with DOI officials, including the Deputy Assistant Secretary for Land and Minerals Management (DASLM), Ned Farquhar, and the Deputy Director of the Minerals Management Service (MMS), Walter Cruickshank, on the margins of the BIC. Shahrستاني seemed aware but not highly knowledgeable about the specifics of the program that DOI has with the Ministry of Oil (MOO).

19. (SBU) After listening to a description of the DOI program, Shahrستاني asked DOI to provide technical assistance to review the adequacy of bid determinations (part of planned MMS on-the job training for MOO in early 2010); to conduct as much training as possible in Baghdad to minimize the absence of MOO employees; and to provide MMS staff short-term to help with the implementation of MMS's technical assistance. The DASLM stated that he would consult with MMS to provide staff, but noted that DOI personnel would be sent to Iraq on a limited basis for assistance and training. He explained that DOI, like the MOO, needed to minimize the absence of its employees; the trainers were DOI employees.

110. (SBU) The Deputy Director of MMS noted that whatever revenue sharing mechanism was adopted by the Council of Representatives, MMS could work with the Ministries of Oil and Finance on collection, disbursement, and auditing of oil and gas revenues. Shahrستاني appreciated this input and stated that the GOI would need MMS assistance on those issues as well.

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Department of Energy Hosts Electricity Minister

111. (SBU) During DOE Secretary Chu's meeting with Electricity

Minister Kareem, Kareem highlighted recent progress, but emphasized the need for greater assistance. He mentioned that Iraq's most urgent priority was to expand generating capacity to provide 24 hours of reliable grid power. Kareem implored Secretary Chu to assist the GOI in securing financing to expand electricity generation, including by pressuring the Export-Import Bank (Ex-Im) to approve an exemption allowing it to work with the GOI. Secretary Chu agreed to look into the GOI's status with Ex-Im and whether DOE avenues exist to encourage greater engagement on project financing in the electricity sector.

¶12. (SBU) Kareem noted the GOI needed about \$3 to \$5 billion in soft loans, aid, or investments to finance electricity sector projects, including funding future payments for Iraq's December 2008 deal with GE. The Minister explained that he had approached the U.S. Embassy and the Department of Defense to propose USG funding for electricity projects as an investment in security. However, he was told that the congressional appropriations process made this unfeasible.

¶13. (SBU) Secretary Chu and Minister Kareem agreed that Iraq's large quantities of flared gas (produced in conjunction with oil) should be used for Iraq's domestic electricity sector. With respect to non-associated gas fields, Kareem was disappointed with the number of companies that participated in the first bid round to develop the two non-associated gas fields on tender (NEA/I Note: About 22 of 35 pre-qualified companies participated in the first bid round, which is respectable. No company submitted a bid on developing the Mansuriya gas field. One consortium, led by the Italian firm Edison, submitted a bid on the Akkas gas field, but did not win the tender. End Note.)

¶14. (SBU) Kareem stated that, despite substantial increases in power generation, the Ministry of Electricity was unable to meet Iraq's rapidly growing demand for electric power. The growth in demand was driven primarily by high subsidies and an improving standard of living, Kareem explained. Despite recent tariff increases, Iraqis still enjoyed 80 percent subsidies on electric power from the national grid. Secretary Chu conceded the political difficulty of increasing tariffs, but argued that steps in that direction were nevertheless necessary.

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